Manitoba

Annual Report 2001 - 2002

Finance

Fiscal Stabilization Fund

Includes 10% post-consumer waste

103-00386/

MINISTER OF FINANCE

Legislative Building
Winnipeg, Manitoba, CANADA
R3C 0V8

HIS HONOUR PETER LIBA
Lieutenant-Governor of the Province of Manitoba
Winnipeg, Manitoba

May It Please Your Honour:

The undersigned has the honour to present the Annual Report of the Fiscal Stabilization Fund for the year ended March 31, 2002.

Respectfully submitted,

Honourable Greg Selinger
Minister Responsible for the
Fiscal Stabilization Fund

FUND PROFILE

Long-term planning is an essential element of fiscal responsibility. Provincial revenue can be subject to year-to-year volatility while expenditures, such as debt servicing costs, vary significantly with financial market conditions.

When revenue growth is unusually high or exceptional revenues are received, positive results may be sharply increased. This gives rise to pressures for program spending or tax cuts on the basis of a single year improvement, which cannot necessarily be sustained in the longer term. The 1989 Manitoba Budget Address announced the creation of the Fiscal Stabilization Fund (Fund), which would be used as a fiscal shock absorber, helping the province avoid disruption to programs or major tax increases. Withdrawals from the Fund may be made when revenue is constrained or there are exceptional expenditure requirements.

The Fund was established retroactively at March 31, 1989 under the authority of The Fiscal Stabilization Fund Act, which received Royal Assent on December 13, 1989. The legislated purpose of the Fund is to assist in stabilizing the fiscal position of the government from year to year and to improve long-term fiscal planning. Under the provisions of the Act, the Government may deposit in the Fund any part of the revenue or other financial assets received in the Consolidated Fund in any fiscal year and shall credit to the Fund any earnings from investment of the Fund. All or part of the Fund balance could be transferred to the Consolidated Fund in accordance with the provisions of the Act. The Balanced Budget, Debt Repayment and Taxpayer Accountability Act, amended in 2000, made related amendments to The Fiscal Stabilization Fund Act. The major changes ensure that transfers to and from the Fiscal Stabilization Fund are not recorded as revenue, but as transfers, and proceeds from the sale of a Crown Corporation are not used in determining whether there is a positive or negative balance for a fiscal year.

2001-2002 ACTIVITIES

At the beginning of the year the Fund had assets of $320.5 million, which were invested and accorded market rates of interest. In 2001-2002, the Fund earned $13.9 million in interest.

The 2001 Manitoba Budget had projected a $60 million transfer to the Operating Fund to meet fiscal targets. For the second consecutive year, this draw was not required. However, an anticipated payment from Manitoba Hydro to the Operating Fund for 2001/02 did not receive legislative authorization until August 2002. As a transitional measure, a $150 million transfer was made from the Fund in lieu of the payment from Manitoba Hydro. The Fund will be replenished in 2002/03.

The Balanced Budget, Debt Retirement and Taxpayer Accountability Act and The Fiscal Stabilization Fund Act require that any Operating Fund positive balance in the fiscal year be transferred to the Fund until its target level is reached. The Minister of Finance has the authority to transfer additional positive balances to the Fund as he considers appropriate. The 2001-2002 positive balance of $63 million was transferred to the Fund.

Office of the Auditor General

500 - 330 Portage Avenue
Winnipeg, Manitoba
CANADA R3C 0C4

AUDITOR'S REPORT

To the Legislative Assembly of Manitoba

I have audited the statement of financial position of the Fiscal Stabilization Fund as at March 31, 2002 and the statement of revenue and expense and fund balance for the year then ended. These financial statements are the responsibility of the Fund's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2002 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Winnipeg, Manitoba
September 17, 2002

Jon W. Singleton, CA•CISA
Auditor General

FISCAL STABILIZATION FUND

MANAGEMENT REPORT

The accompanying financial statements are the responsibility of management of the Department of Finance and have been prepared in accordance with generally accepted accounting principles. These accounting principles have been applied on a basis consistent with that of the preceding year. In management's opinion, the financial statements have been properly prepared within reasonable limits of materiality, incorporating management's best judgement regarding estimates and all other data available up to September 17, 2002.

Management maintains internal controls to provide reasonable assurance of the reliability and accuracy of the financial information and to properly safeguard assets of the Fund.

The responsibility of the Auditor General is to express an independent, professional opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditor's Report outlines the scope of the audit examination and provides the audit opinion.

On behalf of Management

Deputy Minister of Finance
September 17, 2002

FISCAL STABILIZATION FUND
STATEMENT OF FINANCIAL POSITION

As at March 31, 2002
(in thousands)

	2002 $	2001 $
ASSETS		
Funds on Deposit with the Minister of Finance	247,254	320,494
FUND BALANCE		
Fund Balance	247,254	320,494

FISCAL STABILIZATION FUND
STATEMENT OF REVENUE AND EXPENSE AND FUND BALANCE

For the Year Ended March 31, 2002
(in thousands)

	2002 $	2001 $
REVENUE		
Interest	13,922	15,240
Transfer from the Operating Fund (Note 2)	62,838	40,464
	76,760	55,704
EXPENSE		
Transfer to the Operating Fund (Note 3)	150,000	-
	(73,240)	55,704
Fund Balance, beginning of year	320,494	264,790
Fund Balance, end of year	247,254	320,494

FISCAL STABILIZATION FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2002

1. Incorporation and Function

The Fiscal Stabilization Fund was established at March 31, 1989, under the authority of The Fiscal Stabilization Fund Act, which received Royal Assent on December 13, 1989. The legislated purpose of the Fund is to assist in stabilizing the fiscal position of the government from year to year and to improve long-term fiscal planning. Under the provisions of the Act, the government may deposit in the Fund any part of the revenue or other financial assets received in the Operating Fund in any fiscal year and shall credit to the Stabilization Fund any earnings from investment of the Stabilization Fund. All or part of the fund balance can be transferred to the Operating Fund in accordance with the provisions of the Act.

On August 18, 2000, the Balanced Budget, Debt Repayment and Taxpayer Protection Amendment and Consequential Amendments Act was passed amending The Balanced Budget, Debt Repayment and Taxpayer Protection Act, with related amendments to The Fiscal Stabilization Fund Act and The Financial Administration Act.

2. Transfer from the Operating Fund

The Balanced Budget, Debt Repayment and Taxpayer Accountability Act and The Fiscal Stabilization Fund Act require any Operating Fund positive balance to be transferred to the Fund until its target level is reached. The Minister of Finance has the authority to transfer additional positive balances to the Fund as he considers appropriate. The target level for the Fiscal Stabilization Fund is a minimum of 5% of the expenses of the Operating Fund or approximately $337 million, based on 2001-2002 expenses. As reported in the Public Accounts of the Province of Manitoba for 2001-2002, the Operating Fund had a positive balance of $63 million which was transferred to the Fiscal Stabilization Fund.

3. Transfer to the Operating Fund

Under section 4 of The Fiscal Stabilization Fund Act, the Minister of Finance, with the approval of the Lieutenant Governor in Council, may transfer once in each fiscal year all or any amounts standing to the credit of the Fund to the Operating Fund to assist in stabilizing the fiscal position of the government.

An anticipated payment from Manitoba Hydro to the Operating Fund for 2001/02 did not receive legislative authorization until August 2002. As a transitional measure, a $150 million transfer was made from the Fund in lieu of the payment from Manitoba Hydro. The Fund will be replenished in 2002/03.

4. Statement of Cash Flows

A statement of cash flows has not been presented in these financial statements as no additional useful information would be provided by its inclusion.